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DE RUEHVB #1051 2481407
ZNR UUUUU ZZH
R 051407Z SEP 06
FM AMEMBASSY ZAGREB
TO RUEHC/SECSTATE WASHDC 6591
INFO RUEHVJ/AMEMBASSY SARAJEVO 0174
RUEHSQ/AMEMBASSY SKOPJE 2559
RUEHBM/AMEMBASSY BUCHAREST 0762
RUCPDO/DEPT OF COMMERCE WASHDC

UNCLAS ZAGREB 001051

SIPDIS

SENSITIVE

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STATE FOR EUR/SCE BALIAN
STATE FOR EB/TPP/MTA/MST SCHEIBE
STATE PASS USTR DONNELLY

E.O. 12958: N/A
TAGS: [ECON](#) [ETRD](#) [HR](#)
SUBJECT: KEEP CROATIA IN GSP

REF: STATE 128359

¶1. (SBU) In response to reftel, Post strongly supports the retention of Croatia's GSP eligibility and believes that there is a firm policy basis for such a decision. Among the factors we believe the Washington inter-agency should consider when reviewing Croatia's status are: supporting regional stability, encouraging economic development and supporting Croatia's Euro-Atlantic orientation.

¶2. (SBU) Regional Stability: Although the states of the ex-Yugoslavia are moving toward Euro-Atlantic integration, stability has still not been consolidated in this part of Europe. Given commitments elsewhere, the continued stability of the Balkans is a major USG policy priority. Croatia and the other countries of the region are only now recovering economically from the wars of the 1990s, which is leading to a slow reintegration of their economies as trade and investment flows grow. Croatia, which has one of the strongest economies in the region, is an important engine for this process. Although its trade exchange with the U.S. is relatively small, GSP provides an important stimulus for its export sector. GSP could become an even more important outlet as the Central European Free Trade Agreement is expanded to include more ex-Yugoslav countries, opening Croatia's own market to a greater inflow of goods from its less developed neighbors.

¶3. (SBU) Economic Development: Croatia has benefited from the USAID presence in the country since shortly after its independence. Through numerous projects over the years, AID has helped Croatia make a difficult transition from a planned economy that was devastated by war to a modern market economy. These projects have been concentrated particularly in the less developed regions of the country that experienced massive economic dislocations following the collapse of the ex-Yugoslavia. As a result, many small and medium sized enterprises have only now begun to grow and increase employment, making up for the lost industrial and agricultural giants of Croatia's socialist past. For these companies, export markets represent a key area for growth and GSP can play an important role in continuing this process.

¶4. (SBU) As conditions have improved in Croatia, USAID has made the decision to end its presence after 2008. This reflects a view that the remaining work to be done in Croatia can now be done by Croatians themselves. Continuing GSP after direct assistance ends, however, is a way of providing support for the economic legacy of the millions of dollars spent on Croatia's economic development, at relatively little cost to the USG.

¶5. (SBU) Supporting Euro-Atlantic Orientation: Croatia's last two governments have set the country on a clear course toward both NATO and EU membership. Despite myriad domestic challenges, Croatia has stepped up to its international responsibilities, contributing troops to NATO's ISAF mission in Afghanistan and to various UN-led peacekeeping operations around the world. Losing GSP could lead some on the domestic political scene in Croatia to question the benefits of a strategic alliance with the U.S., making it politically more difficult for the government to deliver on key U.S. policy objectives.

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